IN THE

Supreme Court of the United States

OCTOBER TERM, 1975

NO. 75-1658

WESTWOOD CHEMICAL, INC. et al.,
Petitioners,

v.

PPG INDUSTRIES, INC.,
Respondent.

RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI

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The petition in this case does not present a question within the *certiorari* jurisdiction exercised by this Court.

None of the considerations governing review on *certiorari* set forth in Rule 19 is applicable here. The decision below is not in conflict with a decision of another Court of Appeals on the same matter or in conflict with applicable decisions of this Court. Nor did the Court below decide a question of law "which has not been, but should be, settled by this court." There are no special and important reasons for review and there is nothing in the case calling for an exercise of this Court's power of supervision.

The District Court and the Court of Appeals concurred in holding that, on the facts of this case, PPG was relieved of the payment of royalties under a patent license agreement from and after the date PPG brought this declaratory judgment action challenging the validity of the licensed U. S. patents. Those holdings were squarely based upon this Court's decisions in *Lear, Inc. v. Adkins,* 395 U.S. 653 (1969) and *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation et al.,* 402 U.S. 313 (1971).

OPINIONS BELOW

The Opinion of the United States District Court for the Northern District of Ohio (Thomas, J.) is not reported but is set forth as Appendix B to the petition; and the Order of the District Court appears as Appendix C to the petition. The Opinion of the Court of Appeals for the Sixth Circuit is unofficially reported at 189 U.S.P.Q. 399 and is set forth in Appendix A to the petition.*

JURISDICTION

The jurisdictional requisites are set forth correctly in the petition.

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*For convenience, reference to either Opinion will be to the petitioners' appendix, e.g., "App. A, p. ....." Italics within quotes are ours unless the contrary is noted. Respondent, PPG Industries, Inc., is referred to herein as "PPG" and petitioners are referred to as "Westwood."

QUESTIONS PRESENTED

Neither of the questions as stated by petitioners is present in this case. The Courts below concurred in holding that, under *Lear, supra,* PPG was free to challenge the validity of the licensed patents and cease paying royalties and that PPG's obligation to pay royalties necessarily ceased upon the filing of this action on January 18, 1971.

The fact that foreign patents were included in the license is irrelevant because (a) the limited license under the foreign patents was royalty free, (b) the royalty provisions relate only to the "licensed patents," which is defined as the United States patents, and (c) there is no proof or even a suggestion that PPG or its customers ever operated under the license in any foreign country. Likewise, the fact that PPG could cancel the agreement but did not do so is irrelevant. Neither *Lear* nor any of the cases decided subsequently requires such action by the licensee.

Therefore, the question presented might more accurately and simply be stated as follows:

May a licensee obligated to pay royalties under "licensed patents" which are, in fact, invalid cease paying royalties and file a declaratory judgment action challenging the validity of the "licensed patents" and stand freed of further royalty payments from and after the filing of the suit if invalidity is, in fact, established?

STATUTES INVOLVED

The Patent Laws of the United States (35 U.S.C.) and the constitutional provision (Article 1, Sec. 8, Clause 8) on which those Patent Laws are based may be said to be involved, but no specific provision thereof need be considered to dispose of the petition in this case.

STATEMENT OF THE CASE

While petitioners' statement of the case, in large measure, is accurate, nevertheless it contains several inaccuracies and omissions.

The fact that the license agreement grants certain limited rights under foreign patents corresponding to the invalid licensed U. S. patents is totally irrelevant (as the Courts below, in effect, held). Any license or immunity granted under the foreign patents was "royalty free" (App. D, p. 44a, Sec. 3.2). Moreover, the foreign rights were limited to the use and sale in countries outside the United States of products manufactured under license in the United States and on which royalty was payable under the agreement. There was no foreign license except this royalty-free, limited right granted under the foreign patents; and there is no royalty provision in the agreement covering any operations under the foreign patents. Moreover, there is no evidence—or even a suggestion—in the record in this case that PPG or its customers at anytime operated in any way under any of the foreign patents either under the license or in infringement.*

*The foreign patents are probably as invalid as the U. S. patents, but whether valid or invalid is irrelevant.

Petitioners say that PPG had the right to cancel the agreement by virtue of the provisions of Section 6.2 (App. D, p. 47a) of the license agreement. This is correct, but petitioners also had the full right to cancel the agreement if they saw fit to do so after PPG stopped paying royalties in early 1970. However, the right of cancellation is plainly irrelevant under the *Lear* doctrine, as will be pointed out hereinafter.

Petitioners say (Pet. 18) that the District Court declared invalid "without any evidence, all of the many unadjudicated claims of the '378 and '566 patents." This is incorrect. Petitioners admitted in the District Court that the '378 and '566 patents were dead in view of the prior decisions in *Westwood Chemical, Inc. v. Owens Corning Fiberglas Corporation,* 317 F.Supp. 201 (N.D. Ohio, 1970); Mod. and Aff. 445 F.2d 911 (6 Cir., 1971); Cert. Den. 405 U.S. 917 and *Westwood Chemical, Inc. v. Molded Fiber Glass Body Company,* 380 F. Supp. 517 (N.D. Ohio, 1973); Aff. 498 F.2d 1115 (6 Cir., 1974). In addition, petitioners accepted the judgment of the trial Court that all the claims of the "licensed patents," i.e., the U. S. patents, were invalid (Pet. 18).

Petitioners assert (Pet. 19-20) that the Courts below failed to consider the fact that the agreement was still "viable" notwithstanding the invalidity of the "licensed patents," i.e., the two U.S. patents, "in light of the viability" of the foreign patents. While the Court, in its Opinion, did not comment on petitioners' argument in regard to the foreign patents, the same argument that is now made to this Court was made to the Court of Appeals and obviously was rejected because there was no showing that either PPG or any of its customers ever operated under any of the foreign patents or because there was no showing that such operations were within the license.

REASONS FOR DENYING THE WRIT

As stated, *supra*, page 1, the primary reason for denying the writ is that none of the considerations governing review on *certiorari* set forth in Rule 19 is present here. Entirely apart from this, however, the decision below gives petitioners even more than they are entitled to under respondent's view of this Court's prior decisions.

It is and always has been respondent's position that, under the "strong federal policy" enunciated by this Court in *Lear, Inc.* v. *Adkins*, 395 U.S. 653 (1969) and in *Blonder-Tongue Laboratories, Inc.* v. *University of Illinois Foundation et al.*, 402 U.S. 313 (1971), PPG was entitled to "cease paying" royalties "secure in the knowledge" that invalidity could be urged by it when confronted with a claim by Westwood for unpaid royalties and that Westwood's claim would be denied if invalidity could be established (which it has been). The Court below, however, held that mere cessation of the royalty payments was not sufficient, that there was no challenge to validity by PPG until it filed this action on January 18, 1971 and that, therefore, that was the proper cut-off date after which no further royalties need be paid by PPG.

In *Lear*, this Court, in rejecting licensee estoppel in view of the strong federal policy, pointed out that federal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent. The Court noted that, when faced with this basic conflict in policy, both that Court and Courts throughout the land had sought an intermediate position, but the result had been a failure. The Court then pointed out that, before renewing the search for an acceptable middle ground, it should consider on their merits the arguments which might be advanced on the estoppel question. In this connection, the Court stated (pp. 670-71):

> "Surely the equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain. . . . We think it plain that the technical requirements of contract doctrine must give way before the demands of the public interest in the typical situation involving the negotiation of a license after a patent has issued."

This Court (p. 673) then considered the question of whether *Lear* should be required to comply with the contract and continue to pay royalties until its claim of invalidity was finally vindicated in the Courts and pointed out that the decisive question on this matter was "whether overriding federal policies would be significantly frustrated if licensees could be required to continue to pay royalties during the time they are challenging patent validity in the courts." On this point, the Court said that such a requirement "would be inconsistent with the aims of federal patent policy."

The Court went on to point out that the licensee must be freed from liability "at least from the time he refuses to pay the contractual royalties" and that enforcing the contractual provisions, i.e., those requiring the payment of royalties, would undermine the strong federal policy favoring the full and free use of ideas in the public domain. Consequently, the Court held that (p. 674):

"Lear must be permitted to avoid the payment of all royalties accruing after Adkins' 1960 patent issued if Lear can prove patent invalidity."

Two years after the *Lear* decision, this Court again had occasion to give consideration to the "strong federal policy" considered in *Lear*. In *Blonder-Tongue,* the Court, in regard to its earlier holding in the *Lear* case, pointed out (pp. 345-46):

> "*Lear* permits an accused infringer to accept a license, pay royalties for a time, and cease paying when financially able to litigate validity, secure in the knowledge that invalidity may be urged when the patentee-licensor sues for unpaid royalties."

The thrust of petitioners' argument is that the rule of *Lear* and *Blonder-Tongue* is inapplicable here (a) because of the existence of several foreign patents in the license agreement and (b) because of the unlimited right of PPG to terminate the agreement at anytime after giving notice. There is no substance to either of these points.

The foreign patents were not relied upon by petitioners in the District Court and, hence, there is no showing as to what those patents covered or when they expired or whether they were ever used by PPG or any of its customers. Moreover, no royalties ever accrued under those patents. The limited license under those foreign patents was royalty free. Royalties were payable only under the "licensed patents" which were defined in the agreement as the United States patents. Moreover, there is no showing that any of PPG's products produced under the license agreement were ever exported into any of the countries in which Westwood had foreign patents.

In regard to the cancellation provision of the agreement, no requirement was laid down in *Lear* that the licensee must do anything more in the way of standing out from under the agreement than to cease paying royalties. In *Lear,* there were two provisions permitting Lear to terminate the agreement. One was a plain provision to the effect that Lear would have the right on ninety days' prior written notice to terminate any one or more of the licenses granted (*Adkins* v. *Lear, Inc.,* 435 P. 2d at 325; 156 U.S.P.Q. 258, 264, 268, 269). Thus, the distinction urged by petitioners flies in the face of this Court's holding in *Lear*.

The same distinction asserted here by petitioners was asserted and rejected in *American Sterilizer Company* v. *Sybron Corporation et al.,* 526 F. 2d 542, 546 (3 Cir., 1975).

The Courts of Appeals have uniformly held that the license agreement need not be cancelled in order for the licensee to be relieved of further liability.

In *Beckman Instruments, Inc.* v. *Technical Development Corporation,* 433 F. 2d 55 (7 Cir., 1970), the Court applied *Lear* in a situation quite similar to that here. Beckman did not terminate or repudiate the agreement; and it remained in effect during the litigation. The Court held that the fact that patent invalidity did not amount to a *total* failure of consideration and that the licensee received some benefits from the agreement did not prevent the licensee from avoiding payment of royalties under the invalid patent.

In *Product Engineering and Manufacturing, Inc.* v. *Barnes,* 424 F. 2d 42 (10 Cir., 1970), the Court expressly pointed out (p. 44) that *Lear* "did not depend upon whether or not the royalty agreement was still in effect as appellant urges." See also to like effect *Crane* v. *Aeroquip Corp.,* 504 F. 2d 1086, 1092 (7 Cir., 1974).

CONCLUSION

We submit that the petition should be denied.

Respectfully submitted,

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